



Office of the City Manager

Date: November 10, 2016

To: Mayor & City Council
From: HJ Stalf, City Manager
RE: 2016 Budget

Mayor Teegardin & Council Members,

Attached you will find a balanced budget document for 2017 for your consideration. The Utility Funds have drawn down fund balances over the past several years with this expenditure of reserves appropriately invested in capital improvements. We continue to have ample reserves in these funds, with decreasing needs. Should further upgrades be necessary sooner than anticipated, rate increases and borrowing from the General Fund may be in order, but that is not anticipated in the foreseeable future (5-10 years).

Based upon recent audits of the City financial statements, we have continued to improve both our financial position and accounting systems. We are confident that the beginning balances in each fund are accurate for January 1, 2016 with the exception of the water fund which remains in flux awaiting the final accounting of the State Water Loan. At this time, we are making our very best assumptions for budget projections and will continue to refine all of our systems, with more accurate figures based on Q4 sales tax, utility revenues, benefit pricing and other important variables available in the coming weeks. Most of this information has been anticipated and will be reviewed for accuracy.

Fiscal Policy Recommendations

Edgewater has significant reserves, yet even more significant unfunded needs, especially the capital requirements of our public safety, recreation and civic facilities. We have developed strategies to address these issues and anticipate funding these requirements from our increased revenues from new businesses and retail marijuana sales. It appears as though the marijuana revenue has covered nearly all of the expense of our long overdue street maintenance which was substantially completed this year. Our greatest threat to these revenues would be an extension of MJ sales hours in Denver, which has been discussed, or by Federal action to curtail this industry. We do anticipate entering into significant debt in 2017 to fund a new Civic Center to address the pressing needs of our Police Department and to provide enhanced services in the form of a new Jefferson County Library, as well as a fitness center and relocated city offices.

Our reserve funds are invested in very low return instruments at this time. We will be implementing adjustments to our investment approach allowing for our short term cash flow needs while better utilizing our reserves earning capacity. However, rates remain at record lows and returns are very limited. Investment of some of these reserves in capital assets such as new public structures becomes realistic under this scenario.

The City of Edgewater continues to depend greatly on retail sales tax revenues, as does nearly every city in Colorado. 2016 has seen a continued surge in sales tax over what we have experienced in the past several years. We hope to realize a 15% increase over 2015 after a 17% increase last year. Our strategy is to position ourselves as a destination for high revenue retail establishments by continuing to work with the development and commercial real estate communities. In partnership with the ERA, the City may well find itself with opportunities in the next several years to further enhance our sales tax revenues. At this time, we are fortunate to have several new businesses that have opened in the past two years and are returning significant sales tax to our revenues for 2016 and beyond. Existing businesses are performing well overall and revenues are up in all categories. We will continue to monitor these trends over the coming months to ascertain their continued impact on revenues to our major commercial establishments. We need to properly and accurately position ourselves to realize the highest returns possible at each opportunity. Due to sales tax sharing arrangements with major developers and payment of our outstanding debt service, our net return will remain somewhat limited through 2020, at which time our current General Fund debt will be retired.

As far as the general operations of the City, these areas must compete with our capital needs each year. The Parks and Recreation Department is fortunate to have multiple funding sources and the potential for even more grant money. We have implemented an aggressive roll out of recreation programs that realize revenues to significantly offset their costs. We have overhauled the three funds that are utilized in this area (Open Space, Conservation Trust and the General Fund) in recent years to more accurately reflect the appropriate use of moneys in each area and more properly account for their use.

We addressed our salary schedule in 2016, as we did in 2012 and 2014, through comprehensive survey work and have confirmed the appropriateness of our labor costs as well as needed changes that have were implemented in 2016. This study will be repeated in 2018 and every two years going forward. We have already put in place many of these recommendations in the Police Department as we have seen significant opportunities for advancement. We will realize this as part of our work plan, and it will be fully implemented in 2017. Additionally, we have been able to increase both the city retirement match for employees who have been with us for five or more years, as well as implementing a long overdue enhancement to our long-term disability plan.

In conclusion, Edgewater has significant reserve funds in relationship to its annual operating budget; however, the capital requirements of the City remain significant. A comprehensive analysis of all of our funds, our investments and assets this year has permitted us to continue the development of a long-term plan to meet the facility and service needs of our community through construction of a new Civic Center and position the City to remain sound financially.

The budget once again has footnotes to identify changes that represent a significant increase, decrease, change of funding source, or change of service level. Hopefully this is helpful as the budget is reviewed, but undoubtedly questions will remain and the staff is available to help answer them.

Estimate of fund surpluses

You will find that all funds continue to have surpluses, but that several, including some of the utility funds required continued use of reserves to sustain service levels as we completed the transition to a new rate structure and made significant capital investments. The major sewer line projects begun in 2012 have been substantially completed. This has upgraded the system and should lead to greater dependability as well as anticipated assurance of cost of service going forward. The water fund has completed the largest year of improvements in recent memory. This includes the replacement of the 26th Avenue main including the addition of valves and the replacement of the remaining (known) lead service lines. This has required the fund to enter into debt for these long-term improvements which will be repaid by future users who benefit from these projects.

This budget document contains a statement indicating the balance in each fund with interaction between funds. Again this interaction has changed most dramatically in the funds that support the Utility and General Funds. We have been able to address this through analysis leading to a complete rate study and long-term investment plan.

The Fire Pension Fund is a fiduciary fund of the City with no operations; therefore no budget is required other than the annual contribution by the City which is now located in “non-departmental” due to the phasing out of the Fire Department. We completed an actuarial study of this fund in late 2015 and repeat this analysis every two years.

Bottom line...

I find the City of Edgewater to be sound financially and improving in nearly every aspect in its financial systems and management. Our recent “A” rating by Standard and Poor’s of our financial condition confirms the improvements made in our financial operations and investment strategies as a city. We have achieved a great deal of progress in our professional delivery of services with accountability and fiscal restraint. The long neglected maintenance requiring comprehensive repair and revitalization of our financial systems has educated us and allowed for extensive improvements to those systems. Construction of our new Civic Center will allow for the long awaited provision of services to our community in a modern facility capable of accommodating these needs and demands.

I thank you for your patience and support as we have worked diligently to improve our city. I find this to be a very worthy effort this will continue to serve as a precursor to virtually every other action we will consider in the coming years.

Respectfully Yours,

HJ Stalf

City Manager

